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TAGS: [ECON](#) [EFIN](#) [PREL](#) [JA](#)  
SUBJECT: JAPANESE FINANCIAL COMPANIES ACTING IN U.S.  
FINANCIAL CRISIS

SENSITIVE BUT UNCLASSIFIED. CONTAINS PROPRIETARY INFORMATION.

11. (SBU) SUMMARY: Japanese financial companies are picking up assets available as a result of the failure of Lehman Brothers and other U.S.-based financial firms to grow their international presence. Announcements Japan's largest bank, Mitsubishi UFJ Financial Group (MUFG), would purchase 10 to 20 percent of Morgan Stanley and that Nomura Securities would buy both Lehman Brothers' Asian Division and its European and Middle Eastern Division are three early examples of Japanese financial firms with sufficient cash on the books taking advantage of American firms' hardships. Other notable investment activity includes Sumitomo Mitsui Financial Group (SMFG)'s 100 billion yen (\$95 billion in stock) financial assistance to Barclays PLC. The early moves on the investment banking and securities side could be followed in the days and weeks to come with purchases of divisions on the insurance side. Either way, events in the U.S. are changing the global face of Japanese financial companies. END SUMMARY.

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GOLDEN OPPORTUNITIES FOR JAPANESE FINANCIALS TO EXPAND  
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12. (SBU) The September 22 announcement that Mitsubishi UFJ would purchase a 10 to 20 percent stake of Morgan Stanley, a deal that could be valued at as much as \$8.5 billion (pending pre-purchase due diligence by MUFG), was followed by Nomura Securities' September 22 and 23 announcements that it had outbid Barclays PLC for Lehman Brothers Asian Division (valued

at \$225 million) and European and Middle Eastern Division (value was not disclosed). The financial troubles of the American firms presented MUFG and Nomura with opportunities to expand quickly and inexpensively their global presence. A Nomura executive, following the Asia deal, described the purchase of Lehman Brothers' division as a "once-in-a-lifetime opportunity." The purchase of both the Asian Division and the European and Middle Eastern Division adds up to 5,500 employees to Nomura's payroll, highly-skilled and profitable employees Nomura executives have indicated they intend to retain. Bank analyst Yuki Honjo characterized the moves as the benefit of overly prudent behavior; "Japanese banks missed out on the financial party of the century because they were at home grounded," alluding to Japan's relative lack of exposure to sub-prime related losses.

13. (U) Nomura's purchases expand its operations in Asia by adding offices in Australia and India, and in Europe and the Middle East with offices in Germany, the UK, Dubai, Kuwait, and Qatar. Nomura has a significant presence in most of these places, particularly in Asia, but the acquisitions include first-rate talent and expertise they now lack. The purchase also keeps Lehman Brothers' Asian Division and European and Middle Eastern Division out of the hands of other competitors and is part of Nomura's strategy to increase revenue from global operations to over 30 percent of total revenues by 2011.

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MONEY ALSO FLOWING  
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14. (U) Japanese financial companies are also injecting funds into troubled firms in the U.S. and UK. MUFG's plans to buy 10 to 20 percent of Morgan Stanley was followed by Sumitomo Mitsui Financial Group's (SMFG) September 23 announcement it is providing 100 billion yen to Barclays PLC, the same firm that lost out to Nomura for Lehman Brothers' assets in Asia.

15. (SBU) Some journalists in Japan and even an editorial in the Financial Times are claiming Japan is now reviving the role of the U.S. when its financial firms helped bail out Japanese financial companies during the 1990s real estate-led financial crisis. While commentary blaming the United States for the global financial system's woes has been muted, there is an underlying feeling of "America getting its just desserts" for developments over the last ten years. Commentators point out Japan's banks have cash on their balance sheets and that U.S. firms need the money.

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ANNOUNCEMENTS IN THE INSURANCE SECTOR TO FOLLOW?  
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16. (SBU) Executives of international and domestic insurers in Japan were tracing out possible industry acquisitions within hours of the September 16 announcement of the New York Fed's \$85 billion line of credit to AIG. AIG has seven life, non-life, and reinsurance companies in Japan, as well as three investment management companies and one securities house. AIG's life insurance operations constitute about one-quarter of its global life insurance business, and its Japan operations employ about 26,000 of its 116,000 total direct employees.

17. (SBU) Media here report all of AIG's insurance operations in Japan appear healthy, with good revenue and stable management. Due to insurance regulations, each of AIG's insurance subsidiaries maintains a capital reserve for its own products.

18. (SBU) Domestic insurers are showing interest in acquiring

AIG subsidiaries, but that interest is tempered by the unknowns surrounding the bailout. Some subsidiaries are believed to carry AIG stock on their balance sheets, for example, which has led to press speculation about how the companies' values may have changed with AIG's stock tumble. Japanese consumers also put an extremely high premium on safety and security, which means the bailout has damaged AIG's brand. To reassure consumers, AIG took out full-page advertisements in Japanese newspapers over the September 21-22 weekend, but as one company executive told an Embassy official, "No one wants to do business with us right now." While sales may be in the works, AIG's \$85 billion line of credit appears to have kept the pressure off the company and possible suitors to rush into deals.

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ROOM FOR CHEER AMID GLOOM?  
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19. (SBU) Japanese financial firms' acquisitions could help them regain a certain measure of the respect they lost during Japan's 1990s financial crisis. Calling the purchases a once-in-a-generation opportunity, Kenichi Watanabe, Nomura's President and Chief Executive said, "our ability to capitalize on this opportunity in spite of such volatile markets reflects our financial strength and demonstrates how well we have managed the financial crisis." Nomura, SMFG, and MUFG's oft-criticized, low yield cash reserves now provide a platform for Japanese banks to buy these assets at steep discounts. These transactions should not only result in better returns for the firms in the years ahead, but also potentially raise the profiles of Nomura, SMFG and MUFG on the global banking scene. The question remains, though, of what these Japanese firms have learned from their mistakes of the past.  
SCHIEFFER